

13, 064
~~SECRET~~

28 July, 1943

MEMORANDUM FOR COLONEL C. R. PECK, Executive Secretary,
The Joint Chiefs of Staff

SUBJECT: Ambassador Hayes' Report of 16 June, 1943
on OSS Activities in Spain.

A. INTRODUCTORY STATEMENT

This memorandum is submitted as a reply to a despatch to the Secretary of State #991, 16 June, 1943, from Ambassador Hayes, Madrid, Subject: Transmitting Memorandum of Consul General Makinson on Certain Barcelona Incidents, and Offering Comments and Recommendations on OSS activities in Spain, transmitted to OSS on 17 July, 1943 through Colonel Peck. The following memoranda on OSS activities in Spain have already been transmitted:

- (a) Memorandum dated 23 July, 1943 giving answers to specific questions asked by Colonel Peck concerning OSS authority and organization in Spain and Portugal.
- (b) Memorandum dated 23 July, 1943 entitled "OSS Representation in Spain". This gave an account of the efforts made by OSS to get its representative, Mr. Gregory Thomas, to his post in Spain.

13, 064-1
DOCUMENT NO. 13, 064-1
NO CHANGE IN CLASS ☐
☐ DECLASSIFIED TO TS/SIC
CLASS. CHANGED TO TS/SIC 2011 (b)(3)
NEXT REVIEW DATE: 1 JAN 1984
AUTH: HR 70-7
DATE: 14
REVIEWER: 665100
13064-1

~~SECRET~~

As background for the present situation, it will be recalled that on 9 April, 1943, the Joint Chiefs of Staff transmitted to the Office of Strategic Services a somewhat similar memorandum from Ambassador Hayes, dated 6 March, 1943, and that, pursuant to Admiral Leahy's request, General Donovan, on 9 April appeared in person before the Joint Chiefs of Staff to reply to this and allied OSS matters.

On 10 April, following General Donovan's appearance, the Joint Chiefs of Staff wrote to Mr. Berle, Assistant Secretary of State, a letter, copy of which was forwarded to General Donovan with the request that "the enclosure, especially the last paragraph thereof, be considered in the nature of a Directive from the Joint Chiefs of Staff to the Director of Strategic Services". They gave instructions that all representatives whose conduct causes embarrassment to the Ambassador or to the other officials of the Embassy be summarily withdrawn. They expressed the hope that with the arrival of Mr. Thomas in Spain such incidents as those which prompted Ambassador Hayes's protests will be eliminated.

OSS has made every effort to comply with this Directive as set forth below:

(a) In accordance with the explicit suggestions of that letter, arrangements were made for the establishment of Mr. Gregory Thomas as OSS Representative in the Iberian Peninsula. That this has not yet been fully consummated is not the fault of OSS. This crucial matter has been discussed at length in the memorandum already submitted entitled "OSS Representation in Spain".

15
WD 13064-2

~~SECRET~~

(b) There is, in fact, only one OSS Representative attached to the Embassy, Mr. Frank Ryan. It has always been intended that as soon as Mr. Thomas reached Spain, Mr. Ryan's duties would end, and he would return to the United States having finished his interim mission. Mr. Thomas would take charge, preferably as Special Assistant to the Ambassador, as the Department of State agreed, but unless Mr. Thomas receives the official designation from the Department as Attache to the Embassy, he will not be able to carry out most effectively OSS representation in Spain.

(c) In the carrying out of this Directive, and in an effort to comply with the Ambassador's wishes, OSS has already arranged with the Department of State for the withdrawal of two men who have proved unsatisfactory to the Ambassador. These men will be withdrawn just as soon as their replacements can arrive in Madrid. The final arrangements with the Department of State as to these two men were made on 13 July (before OSS was cognizant of the Ambassador's memorandum); and, in fact, plans for their withdrawal had been initiated by OSS some time before. A third member of the Oil Mission was recalled to the United

16

WOW 13064-3

~~SECRET~~

States at the initiative of OSS in the first week of July.

B. REPLY TO CRITICAL COMMENTS ON OSS ACTIVITIES

I. Oil Observers

(a) Relationship of Oil Observers to the Embassy

This matter, with which the Ambassador seems most concerned, has already been satisfactorily adjusted with the Director of Petroleum Control in Spain and the Department of State on 13-14 July, some days before OSS was aware of the Ambassador's allegations to which we are now replying.

The origin and nature of the Oil Mission is described in Ambassador Hayes' memorandum of 8 March, 1943:

"Our Government (has desired) to keep fully informed of events and developments within Spain, and, through our Spanish contacts, to obtain as reliable information as possible about military and political situations and developments in neighboring countries, especially in France and Italy. Indeed, the geographical location of Spain obviously renders it a prime listening-post for our war effort.....

17
WD 13064-4

~~SECRET~~

"When our program of control of petroleum imports and distribution was announced, the Embassy took the initiative in suggesting that the observers sent to Spain under this program might profitably report also on other matters of the nature just referred to. The suggestion was acted upon by the C.O.I. (and its successor, the OSS) under Colonel Donovan, with the concurrence of the State Department and the knowledge of the present Ambassador. The result has been that all the assistants to the Director of Petroleum Control in Spain, Embassy Attache Mr. Walter Smith, have dual roles (1) they are embassy attaches, accorded diplomatic status by the Spanish Government, and recognized by it as 'oil observers', (2) they are secret intelligence agents of the OSS, operating presumably without the knowledge of the Spanish Government."

The dual function of the oil observers has created problems, as the Ambassador points out. These problems have now been arranged to the satisfaction of the State Department, OSS, and Mr. Walter B. Smith, the Director of Petroleum Control in Spain, who has recently been in Washington. The agreement was embodied in the following cable which has been sent by

11

WN 13064-5

~~SECRET~~

OSS to Mr. Pratt in Spain, (transmission having been delayed at Mr. Smith's request until his return to Madrid):

"WE HAVE REVIEWED OIL ORGANIZATION WITH DEPARTMENT AT THEIR REQUEST. THE DISTURBING FACT IS DISCLOSED THAT FOUR MEN ARE DEVOTING EXCLUSIVE TIME TO OUR WORK CONTRARY TO AGREED POLICY. WE CONSIDER THIS DETRIMENTAL TO SECURITY OF BOTH ACTIVITIES, THE FUTURE SUCCESS OF THE PROGRAM, AND OUR UNDERTAKING WITH STATE. THE FOLLOWING POINTS HAVE BEEN CONSEQUENTLY AGREED UPON WITH THE DEPARTMENT WITH REFERENCE TO PERSONNEL WORKING JOINTLY FOR OIL AND FOR US, EFFECTIVE IMMEDIATELY.

1. EACH OIL ATTACHE NOW IN SPAIN WILL DEVOTE FIFTY PERCENT OF HIS TIME AND CONSCIENTIOUS EFFORT TO OIL. THIS INCLUDES THREE REPLACEMENTS*, NAMELY, HODGE, SINGLETON AND LOCKWOOD, ARRIVING IN THE NEAR FUTURE.

2. EIGHT FURTHER MEN NOW BEING RECRUITED BY STATE WILL WORK ON OIL ONLY.

3. YOUR TIME IS STILL FIFTY PERCENT AVAILABLE TO SMITH AND WHEN HE DEEMS NECESSARY YOU SHOULD ARRANGE TO DEVOTE THIS TIME TO OIL. IN SMITH'S ABSENCE

* FOR DEFINE, FERGUSON AND WILSON

1/2

WAS 13064-6

~~SECRET~~

YOU LIKEWISE SHOULD ASSUME ACTIVE CONTROL AND RESPONSIBILITY FOR OIL.

4. WITH REFERENCE TO DUAL CAPACITY MEN: SMITH HAS FINAL AUTHORITY IN STATIONING OF MEN, THEIR MOVEMENTS, TIME SCHEDULES AND AUTHORITY TO INSURE THE GIVING OF FIFTY PERCENT OF TIME AND EFFORT BY THE DUAL CAPACITY MEN TO OIL WORK. YOU ARE ENTITLED TO THE OTHER FIFTY PERCENT FOR OUR WORK AND WILL HAVE FULL AUTHORITY AND RESPONSIBILITY FOR THE REMAINING TIME OF THESE DUAL EMPLOYEES. THE MAN MENTIONED IN PARAGRAPH TWO ABOVE ARE TO BE EXCLUSIVELY OIL MEN.

5. AS YOU CANNOT OPERATE IF IT IS UNSUCCESSFUL, PLEASE UNDERSTAND OIL PROGRAM IS TO BE GIVEN PRIORITY. THEREFORE COOPERATE FULLY WITH SMITH TO THAT END AND DO NOT ALLOW THE OIL PROGRAM TO BE PREJUDICED BY YOUR DEVOTION TO OUR WORK OR INEQUALITIES OF EXPENSE."

We have reason to believe that the above carefully considered arrangement made between the Department of State, the Director of Petroleum Control in Spain, and OSS will be satisfactory to Ambassador Hayes, and we trust that it will be equally satisfactory to the Joint Chiefs of Staff.

(b) Salaries and Expenses of Oil Observers

The Ambassador states that "the present

WD 13064-7

~~SECRET~~

Oil Attaches who work for OSS are scandalously overpaid, being now in a position to deposit their entire salaries, amounting in most cases to \$6,000 a year, in the United States, and to live here on their allowances from OSS". The Ambassador proposes as a remedy for this (1) a salary of \$4,600 with (2) per diem (3) transportation expenses, and (4) a modest unbudgeted drawing account controlled by Mr. Smith. This salary, plus per diem of \$7.00, would equal \$7,155 per year.

The facts are these: One Oil Observer who acts as Chief Agent for OSS receives \$650 per annum in excess of the figure recommended for all men by the Ambassador. The other eleven men receive as salary and per diem the average amount of \$5,985, or \$1170 less than the amount recommended by the Ambassador.

The Ambassador also recommends a modest unbudgeted drawing account controlled by Mr. Smith. Presumably this would cover legitimate expenses of entertainment, and perhaps some moderate upward adjustment necessitated by the high cost of living in Spain. OSS is as deeply concerned as the Ambassador that this aspect of its affairs be handled correctly;

20

WP 13064-8

~~SECRET~~

and before the receipt of the recent criticism of the Ambassador in this regard, OSS had cabled to him for his permission to send a resident financial officer, Mr. George Howe, to Spain to supervise this matter, together with the handling of money necessarily disbursed in the purchase of information. Furthermore, OSS had instructed W. Lane Rehm, its principal Finance Officer, to make an inspection of this matter in Spain, which should be prior to or coincident with the arrival of Mr. George Howe.

The instructions on financial matters from the Washington Office of OSS with regard to its full or part-time employees in Spain are clear and correct. Fundamentally, as has been shown, these ideas agree with the ideas of the Ambassador; but in view of the need for the expenditures of certain monies secretly for the purchase of information, OSS is convinced that such expenditures, together with the difficult problem of expenditures incident to the collection of intelligence, can be handled by Mr. Howe, OSS financial officer, better than by Mr. Walter E. Smith, head of the Oil Mission.

II. Criticism of OSS Policy

One substantial criticism made by the Ambassador

21

WD 13064-9

~~SECRET~~

is that OSS Representatives have been guilty of "ignoring Spain's broad general relationship to our war effort, with resulting frequent flouting of the Department's and Embassy's considered policy toward Spain".

OSS has no political policy of its own. Its objective is to acquire useful information and put it into the hands of those agencies of the United States Government which can employ it effectively in the war effort. The Ambassador has been concerned about preserving Spain's neutrality. OSS has been concerned to get information of value to the war effort, irrespective of Spain's neutrality. Many American civil and military officials (and doubtless also the Ambassador) have been concerned lest neutrality could not be maintained and OSS intelligence has been directed toward that contingency. Never has OSS held a view different from Ambassador Hayes' concerning the desirability of a neutral Spain; but never, on the other hand, has it shut its eyes to the other possibility.

In that connection from time to time (and purely for the purpose of getting information in Northern Spain, at the border, and out of Southern France) OSS has employed agents who happen to be

22

WFO 13064-10

~~SECRET~~

Basques. The Ambassador refers to OSS employment of "subversive" elements. OSS has no interest whatever in subversion, in Basque politics, in Spanish politics, or in "post-war planning". Certain Basques employed by OSS in the North of Spain were, and are, intelligent, enterprising and courageous agents. They have been engaged to get information, and they have got it. The results have justified the decision to engage them.

III. Allegation of "Planting" Agents in Other U.S. Government Offices in Spain

(a) The Ambassador stated that OSS "planted" an agent in the American Consulate General in Barcelona. The facts are as follows: An OSS Representative employed a Spaniard in Barcelona to work for him. Subsequently, the same Spaniard was employed by the Consulate General. Our Agent, through faulty judgment, but through no particular motive, did not inform the Consul General of this fact. When OSS became aware of the situation, our Representative in Barcelona was reprimanded and instructions given that a like situation should not be allowed to develop again.

(b) The Ambassador avers that OSS "Planted" an agent in the Military Attache's office in Madrid. The

23

100 13064-11

~~SECRET~~

facts are as follows: A certain Dominguez was originally employed by the Military Attache in Lisbon. With the consent of the Military Attache, Dominguez was asked by OSS if he could devote some time to our activities, to which he assented. Subsequently, his work proved so unsatisfactory, both to the Military Attache and to OSS, that his services were dispensed with by both Offices. Dominguez later went to Spain and was employed there by the American Military Attache. At no time in Spain was this man either in contact with or employed by OSS, who had absolutely no interest in him after the experience in Lisbon.

IV. Criticism of the Calibre of OSS Work

The work accomplished by OSS in Spain is characterized in the Ambassador's despatch as "dubious". In commenting on this the Ambassador says: "If I felt that the work done by the OSS in Spain constituted a major contribution to our war effort, and could not be done more effectively in some other way, I would be more charitable about the leadership and personnel of the organization and more disposed to overlook the trouble and embarrassment it causes the Embassy and the Consulates."

24

50 13064-12

~~SECRET~~

The Ambassador refers to the "big mass of stuff" gathered by OSS agents in Spain, describes it as "uneven and fragmentary, derived chiefly from gossip and hearsay", and states that it is "calculated more to create a sensation than to present an accurate picture". He cites two more examples, and states that he will not multiply "ad infinitum, the foregoing examples of the inadequacies and blunders of the military reporting of OSS about Spain".

(a) MIS Appraisal

In contrast to this characterization by Ambassador Hayes, MIS Washington has been consistently appreciative of the intelligence supplied it from Spain by OSS. Its most recent evaluation (24 July, 1943) covers 54 reports from that area submitted by OSS in the week 18 July to 24 July, on Spanish Battle Order, naval bases, ship movements, fortifications, airfields, maps, munitions, production, railroads, highways, telephone systems and counter-espionage.

MIS Evaluation follows:

"Value to MIS

Definitely valuable 35

25

WD 13064-13

~~SECRET~~

Of secondary interest	10
Casual interest	11
Worthless	0

Reliability of Information

Confirmed by other sources	9
Probably true	30
Possibly true	15
Doubtful	0
Improbable	0
Cannot be judged	0

Timeliness of Report

Current	54
Material old but valuable	0
Out of date, hence worthless	0

Originality of Report

Original	50
Duplicates of other material	1
Confirms information received	3
Denies information received	0"

It is to be noted that this is not an evaluation of certain reports selected for the purpose by OSS. The reports were run of the mill. They were evaluated in the routine of a system established several months ago, whereby, for the purpose of increasing the value of OSS intelligence, MIS agreed to give an evaluation at two-months intervals. The first such evaluation was rendered to OSS on reports sub-

26
WD 13064-14

~~SECRET~~

mitted to MIS during the period 23 May to 29 May.

(b) British MEW Appraisal

On 23 July, 1943, following many favorable evaluations of OSS material previously submitted, OSS received from the British Ministry of Economic Warfare, through the British Embassy at Madrid, the following comment on OSS Report A-3534:

"The Ministry of Economic Warfare wishes to emphasize the great value that they attach to this report and others of a similar nature. They would appreciate it if their sincere thanks were conveyed to OSS who have organized this so well. The Ministry in question goes on to make the following points:

1. Can this report be received regularly? It fills an important gap in our information.
2. Can similar figures be obtained for Portugal? Does this represent 'total' traffic - i.e. including any traffic not declared for customs purposes?
3. Can figures of imports from Europe into Portugal be obtained?
4. Can complete information of this nature be made available to us as from the 1st January 1943?"

(c) Ambassador Hayes' Appraisal

As it so happens, on 5 April, 1943, in

27

WFO 13064-15

~~SECRET~~

his cable of that date to the Department of State, Ambassador Hayes reported as follows:

"One of the most important sources of material for evasions investigations comes from the traffic movements reports obtained by the British and American Embassies. For most of these, this Embassy is indebted to the Office of Strategic Services. See my strictly confidential despatch No. 685, March 9, 1943, for an illustration of one use to which they are put. They are also useful in detecting the activities of entities under observation for listing action."

With regard to the general nature of OSS reports, in the period from 1 December, 1942, to 1 March, 1943, as stated in the memorandum submitted on 23 July, 1943, concerning OSS organization in Spain, 325 written documents were received by OSS by pouch from Madrid. In the succeeding four months period 1 March to 1 July, 1943 (a period characterized by the Ambassador as disorganized and misdirected) the total number of pouch reports was approximately 1500, and in addition 184 reports were received by cable.

On the important question of Map Intelligence, OSS has obtained some 1000 maps of the Iberian area, and over 3000 aerial photographs taken in

28

WD 13064-16

~~SECRET~~

Portugal. All of the aerial photographs have been sent to the Army Map Service, as have the best of the maps. The last shipment contained 26 maps of Spain, previously not in existence in this country - and superior to any others known. Furthermore, a considerable portion of this one pouch includes maps so newly improved as to be considered new data. At the moment, over 200 pounds of maps have accumulated in the Madrid Office, due to restrictions placed on the volume of material which we are permitted to send by diplomatic pouch. A bomb target program in Spain has been set up, based on over 400 control maps kept in duplicate in the Washington and Madrid Offices. This program, shortly to be expanded to include Portugal and France, is expected to be a major source of information for the Army Air Corps.

These reports and maps are available for inspection and analysis.

OSS does not accept a characterization of this material as a "big mass of stuff", "gossip and hearsay" or sensational "spot news". It is intelligence of recognized high order, abundant and original.

As regards OSS intelligence operations in Southern France, conducted from Spain, the Ambassador

29

WN 13064-17

~~SECRET~~

suggests that what "OSS can do in these respects seems pitifully slight compared to what Colonel Malaise and his numerous experienced colleagues and agents among the French North African mission here, and among the refugees from France itself, are doing in close collaboration with our own Military Attache." In the first instance, it is submitted that the turn of the political wheel may make Colonel Malaise and his French colleagues unavailable to the war effort of the United States. But apart from this fact, OSS does not regard its work into France as competitive or its sources as superior. It is a valuable independent service. In certain circumstances it might prove to be the only intelligence service into Southern France remaining to the armed forces of the United States.

V. Additional Allegations By the Ambassador

The foregoing replies to the substantial charges set forth in the Ambassador's despatch. The following matters introduced by him will not be gone into for the reasons given:

(a) Criticisms already answered by General Donovan categorically, at Admiral Leahy's request, on 9 April, 1943, which have reappeared in Ambassador

30
WN 13064-18

~~SECRET~~

Hayes' recent reports such as the incidents connected with Mr. Dilucia, who left Spain months ago and is now in the United States.

(b) The section of Ambassador Hayes' most recent report entitled "The Leadership and Direction of OSS in Spain", to which a full reply, at Colonel Peck's request, was made on 23 July, 1943, referred to above.

C. COMMENTS ON THE RECOMMENDATIONS OF AMBASSADOR HAYES

At the end of his despatch, Ambassador Hayes makes four recommendations:

I. That a Proper Head of OSS be Appointed

Mr. Gregory Thomas is regarded in all quarters as answering the Ambassador's description. His re-appointment to Madrid has never been made by the State Department. It is respectfully suggested that the Joint Chiefs of Staff request the Department of State to take immediate steps to expedite the re-appointment.

Moreover, if after his arrival, the Ambassador should continue to feel that Mr. Thomas should devote all his time to Spain and none to Portugal, OSS, with

31
WOW 13064-19

the approval of the Joint Chiefs, will instruct Mr. Thomas in this sense, and will make other arrangements for Portugal.

~~SECRET~~

II. That Personnel and Financial Arrangements of the "Oil Observers" be Cleared up and Their Duties be Precisely Defined

This has been done (as reported above) prior to receipt by OSS of the Ambassador's recommendation, in conferences held on 13 - 14 July, 1943, at the Department of State, between the Head of the Oil Mission, Representatives of the Department, and Representatives of OSS. Among other things, it was agreed at that conference that Messrs. Ferguson and Wilson should be recalled (all parties agree on the desirability of this) and that replacements should be sent. The replacements were also agreed upon at that meeting.

III. That There Should be "Some Agreed-Upon and Adhered-To Division and Coordination of Labor Between Our Several Intelligence Services of Spain"

The Ambassador suggests that the Military Attache's Office take over intelligence work on military dispositions and facilities within Spain; that the newly arrived Naval Attache be responsible for naval, air, and counter-intelligence; and that the North African French of Colonel Malaise be given the responsibility for

32

WNO 13064-20

~~SECRET~~

gathering information about the military and political situation in France.

So far as OSS is concerned, says the Ambassador, it "might, under proper leadership and with proper personnel, assume responsibility for intelligence work on all sorts of traffic along the Franco-Spanish border, and by concentrating on Oil-control throughout the country, it could incidentally assemble much miscellaneous information of value to the Embassy as well as to the other intelligence services".

It is submitted that there can be no division of labor such as Ambassador Hayes recommends. OSS is a secret intelligence service, new in the United States history, but operating in well-understood ways. To quote from the Joint Chiefs of Staff letter of 10 April, 1943, to Mr. Berle, "Much of this information can only be gained by underground methods which are not compatible with the code of ethics established for diplomatic representatives, including Military and Naval Attaches". That which characterizes OSS is its manner of obtaining information, and its sources. This, by definition, cannot be shared with the official attache services, as the Joint Chiefs have pointed out. Since parcelling out of our sources is impossible, a

13064-21

division of labor is likewise impossible.

IV. That "The War Department May See Fit to Recognize and Establish Madrid as the Focal Coordinating Point for a 'Joint Intelligence Command' for the Whole Iberian Peninsula, the Canaries and Tangier, and to Designate the Present Military Attache here as its Chief"

In telegrams of 26 August and 13 November, 1942, and on 17 February, 1943, the Ambassador suggested that OSS personnel be placed under the Military Attache. He renewed this recommendation in his despatch of 18 March - which was the subject paper of the answer and appearance of General Donovan before the Joint Chiefs on 9 April. On the 10 April, the Joint Chiefs advised the Ambassador that in their view it would be impracticable to place the Representatives of the Office of Strategic Services under the control of a Military or Naval Attache.

The Ambassador now recommends the establishment of a "joint intelligence command" with the present Military Attache as its chief. It is impossible to know whether this is a renewal of the idea which the Joint Chiefs have already rejected, or whether it is an expression intended to signify cooperation and collaboration in intelligence. OSS does not feel it

34

WD 13064-22

~~SECRET~~

opportune to express its views on this subject without instructions from the Joint Chiefs of Staff.

Secret intelligence of OSS operates in the following neutral or near-neutral countries: Finland, Sweden, Switzerland, Portugal, Turkey and Spain. In the first five countries mentioned there is, so far as OSS has been informed, complete harmony between the Ambassador or Minister, the Military Attache, and the Representatives of OSS. Mr. Johnson, Minister to Sweden, and Mr. Schoenfeld, Minister to Finland, spent the greater part of several days with OSS in Washington when they were here, to no purpose other than to cement an already strong working relationship.

Such a relationship can be established in the one neutral country where it does not yet exist - Spain. OSS is determined to make every possible effort to reach a complete understanding with Ambassador Hayes, with the result that the Embassy may do its work unhampered by any embarrassment from OSS, and OSS may do its work with the good will and cooperation of the Ambassador.

G. Edward Buxton
Acting Director, OSS

35

WS 13064-23